

**Detroit Public Schools
Office of the Auditor General**



**FINANCIAL RELATED AUDIT
OF
EDWARD (DUKE) ELLINGTON
CONSERVATORY OF MUSIC & ART
School Year 2008-09**

REPORT NO: 09-074

REPORT DATE: June, 2009

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BACKGROUND

For School Year 2008 – 2009, approximately 560 students were enrolled at Edward (Duke) Ellington Conservatory of Music & Art (Duke Ellington), which has grade levels Pre-Kindergarten through Eighth Grade. Ms. Yolanda Herbert was the Principal during this time period and has been serving in this capacity since 2006.

Ms. Dolores Dixon, Head Secretary, performs the bookkeeping duties and has done so since 2005. Mrs. Dixon maintains a file for cash receipts and disbursements; once she receives the bank statement for the month she forwards the information to Betty Weatherspoon (outside contractor) to complete the bank reconciliation for the month.

Duke Ellington maintains a commercial checking account with Chase Bank. Primary sources of General School Funds include special project funds (i.e., Skillman Good Schools Grant and Compact). Sources of District Fund Revenues include Food Services (i.e., lunchroom).

AUDIT OBJECTIVES

The objectives of the audit were to ensure that:

- 1) The cash management system is effective in controlling the receipt, processing, deposit, and disbursement and accounting of funds to limit any risk of theft, misuse and/or misappropriation, and
- 2) General School funds (*for example, student fees, fundraising activities, grants, etc.*) and District funds (*for example, lunchroom receipts, fines, athletic/league game receipts, summer school tuition, etc.*) are properly accounted for, safeguarded and used as intended.

SCOPE & METHODOLOGY

The scope of the audit was to review the cash management activities from July 1, 2008 through March 31, 2009 for school year 2008-2009.

- 1) Interviewed key school officials to obtain an understanding of their cash management process.
- 2) Prepared a process narrative documenting the controls in place for each source of revenue.

Reviewed monthly cash receipt and cash disbursement ledgers: If the ledgers did not exist, transaction activities were compiled by totaling cash receipt records and reviewing the check register for cash disbursements.

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SCOPE & METHODOLOGY (continued)

- 3) Completed a cash receipt ledger template: The ledger was designed to identify funds, which may have been received but not deposited. Performed research as necessary.
- 4) Performed a cash count: All cash on hand waiting to be deposited, as of the audit date, was counted under dual control by a field auditor and witnessed by a school official. The count did not include sealed cash for lunchroom deposits.
- 5) Compiled financial data via bank reconciliation templates: Reviewed reconciliations completed by the schools to identify banking irregularities and reconciling items outstanding for an extended period of time. Confirmed bank reconciliations were completed as reported to the Office of Central Accounting.

FINANCIAL SUMMARY

Table 1.1: Cash Receipts from General and District School Funds (July 2008 – March 2009)

ACCOUNT TYPE	AMOUNT
<u>Commercial Checking Deposits</u>	\$74,115

AUDIT RESULTS IN BRIEF

Based on our audit of the cash management process, we noted control weaknesses related to compliance with District cash management policy.

The following non-compliance issues were noted:

- Fundraisers have not been prior approved by the District
- Profit and Loss statements are not completed for fundraisers
- Bank reconciliations are not approved by the Principal prior to submission
- Stale-dated check was listed as outstanding on the bank reconciliation

The detail of these findings and recommendations are included in the Findings Section of this report.

Achievement

Duke Ellington is a recipient of the *Skillman Foundation Good Schools Grant* with a designation as a *High Performing School*. This indicates that they have met criteria such as: (1) Meeting or exceeding grade-level expectations in English, math and science; (2) Offering challenging curricula to all students; and (3) Demanding consistent attendance and punctuality from all students, etc.

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AUDIT FINDINGS

1. Finding - School Administrative Financial Manual Non-Compliance:

The “School Administrative Financial Manual 2006 -07:” (SAFM) governs the cash management function within the District.

The following non-compliance issues were noted:

- Fundraisers have not been prior approved by the District
- Profit and Loss statements are not completed for fundraisers
- Bank reconciliations are not approved by the Principal prior to submission
- As of March 2009, a stale-dated check from March 2008 remained listed as outstanding check on the bank reconciliation

Cause

The school official stated that she was unaware of the District’s SAFM and therefore was not aware of the requirement to use certain forms for cash receipts and check requests.

Effect

Lack of adherence to District policies can lead to inconsistent practices resulting in processing inefficiencies, inaccuracies and/or misappropriation of funds.

Recommendation

The Principal should ensure that all staff responsible for financial transactions, are trained on District policy for cash management activities, as detailed in the “School Administrative Financial Manual 2006-07”

Also, the Principal should ensure that all individuals involved in the cash management process are aware of where current District polices are stored on the intranet, as well as appropriate contact information for those Central Accounting Office personnel responsible for assisting in the accounting process.

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MANAGEMENT RESPONSE

Management Response provided by Ms. Yolanda Herbert, Principal:

This information that I have been provided with from the office of Auditors General, I concur and take as constructive criticism. I will from now and henceforth promise to make sure of the following corrections:

- I will become familiar with the SAFM process. I will contact my superior and request this tool expeditiously.
- I will assure in the future should we embark on any fundraisers, that all protocol and procedures are adhered to by all.
- I will direct my secretary that all bank reconciliations are approved by me the principal prior to submission.
- I will make sure all persons responsible for the financial management of our school are trained.
- I will make sure in the future we don't have any stale checks.

Again, I thank you for this information . Yolanda Herbert, Principal of Duke Ellington Conservatory of Music and Art.

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Our audit was performed in accordance with U.S. General Accounting Office Government Auditing Standards and Standards of the Institute of Internal Auditors.

This report is intended solely for management and should not be used for any other purpose. This restriction is not intended to limit the distribution of the report which is a matter of public record

Odell W. Bailey, CIA
Auditor General